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# Chairman's Statement

On behalf of the Board of Directors of Victory City International Holdings Limited (the "Company") and its subsidiary companies (the "Group"), it gives me great pleasure to present to our shareholders the results for the year ended 31 March 2006, being the eighth consecutive year of increase in both revenue and net profit.

## DIVIDENDS

The Directors have resolved to recommend the payment of a final dividend of HK6.0 cents per share (each a "Share") of HK\$0.01 each of the Company in respect of the year ended 31 March 2006 to shareholders whose names appear on the register of members of the Company on Friday, 25 August 2006 and also to recommend the offer to the shareholders the right to elect as an alternative, to receive such final dividend wholly or partly by allotment of new Shares credited as fully paid in lieu of cash (the "Scrip Dividend Scheme"), subject to the approval of the shareholders on the payment of final dividend at the annual general meeting of the Company and the granting by The Stock Exchange of Hong Kong Limited of the listing of, and permission to deal in, the Shares to be issued pursuant thereto.

The Shares to be issued pursuant to the Scrip Dividend Scheme will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of such Shares save that they will not be entitled to the final dividend for the year ended 31 March 2006.

On condition that the payment of the above final dividend is approved by the shareholders at the annual general meeting of the Company, a circular containing details of the Scrip Dividend Scheme will be despatched to the shareholders of the Company shortly after the annual general meeting of the Company.



## BUSINESS REVIEW

Over the past years, we have experienced satisfactory business growth, and the financial year under review continued our trajectory, propelled by growth in each of our business segment. Although the industry faced with various unfavourable conditions including the increase in fuel and finance costs, trade disputes between PRC and United States and European countries and pressure on general expenses exerted by Renminbi appreciation, our results for the past twelve months were encouraging.



The Group's turnover rose steadily by 18% to HK\$2.8 billion and net profit for the year attributable to equity holders of the Company surged to HK\$250.3 million, signifying an increase of 23% as compared with the previous year. Basic earnings per share increased from 36.1 cents in 2005 to 43.4 cents in 2006.

Production and sales of knitted fabric and dyed yarn remained as the principal operation of the Group and accounted for 64% of

the consolidated revenue. Our enhanced monthly production capacity together with the dedicated effort of the marketing teams contributed to the turnover growth. Improvements in production efficiency and product quality through our investment in highly advanced machinery, together with incessant cost controls, contributed to the profit growth. Gross profit margin for the textile segment increased from 22.6% in 2005 to 24.4% in 2006. It is envisaged that the growth in both revenue and profit will be sustained in the coming years.

The garment segment continued to demonstrate satisfactory performance during the year under review by achieving a 44% growth in revenue to HK\$1.0 billion, accounted for 36% of the consolidated revenue. Despite the trade disputes and uncertainties arising from the abolition of garment quotas in 2005, the diversified global sourcing base of our garment segment has been well-prepared for these challenges and opportunities and has also successfully diversified our clientele base as well as product ranges. As a forward integrated expansion and recognising the performance of certain customers and brand names to outsource production to companies with their own manufacturing facilities, our garment manufacturing facilities were established in Jordan, PRC and Indonesia during the year. The Group is well-positioned to capitalise on the core strength of multi-location production capabilities with flexible and effective production plannings. We are confident that this new garment

manufacturing business will enhance the vertical-integrated competitive advantage of the Group and contribute to the driving force of our corporate development in the coming years.

The past year was full of changes and challenges and the business environment experienced an increase in competition and higher expectation from customers. Our Group's results underscored the strategies that have been taken in the past years and the strong capabilities of our management and operating team in meeting the most demanding expectations in the intensely competitive global environment.

## OUTLOOK

In today's challenging and dynamic environment the critically important competencies essential to survival include efficient and effective delivery of quality products and services to the customers. Throughout our years of effort, we have become vertically integrated, from yarn dyeing, knitted fabric manufacturing to garment sourcing, manufacturing and exporting, providing customers with comprehensive and integrated services.

The clearance of textile and garment uncertainties through the signing of trade agreements between PRC and United States and European countries provided steady and predictable growth for the export of Chinese textile products. It is anticipated that PRC will emerge as the largest exporter of textile products. In addition, the economic growth in PRC together with improvement in living standards of residents boost more purchasing demand for garment apparels. Notably, orders from PRC branded customers have been increasing substantially throughout the year and we are well-positioned to increase our domestic market share in PRC.



To cope with both the export and domestic growing demand of our quality fabric, our monthly production capacity of knitted fabric will be further enhanced from 12 million pounds to around 15 million pounds by the end of July 2006. Together with our low cost structure, superior product quality, streamlined manufacturing process and long-term relationships with customers, we believe we are well-equipped to strengthen our position as one of the leading manufacturers in the textile and garment industry, providing comprehensive services to both international and PRC domestic customers.

Our strategic approach and investments have successfully created steady earnings growth in recent years. While the year ahead will be a challenging one, we believe that with our solid foundation and committed focus of management team, the Group is well-prepared to enhance its competitiveness and to meet the new challenges ahead. We intend to capitalise on all strategic opportunities to maintain our uninterrupted record of growth and bring the most satisfactory returns to our shareholders.

### **APPRECIATION**

Finally, on behalf of the Board, I would like to thank our management and staff whose dedication and hard work have allowed us to fully achieve our goals. I would like to express my sincere thanks and gratitude to our customers, suppliers, bankers, business partners and shareholders for their constant and continuous support.

In addition, I would like to express my heartfelt thanks to Mr. Lau Chung Kwan, who, due to personal reasons, resigned as our independent non-executive director on 31 March 2006. I thank him for his efforts and contributions to the Group throughout his directorship and wish him well in the days ahead.

Li Ming Hung

*Chairman*

Hong Kong

12 July 2006